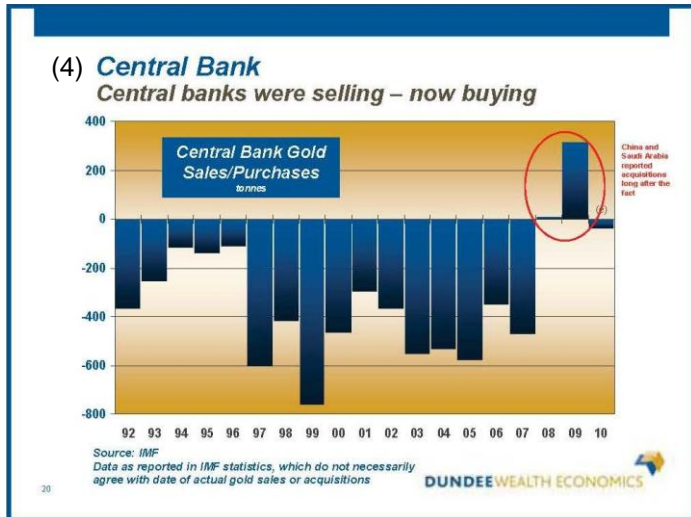


Gold price forecasts for 2011 and into early 2012 are bullish. The “big picture” for gold has remained remarkably constant for some time. According to Dr. Martin Murenbeeld, the Chief Economist of DundeeWealth Inc., the arguments favouring high gold prices are many and should continue to dominate the few bearish arguments in the years ahead.



(1) Global fiscal and monetary reflation: There is likely to be a continuing need for expansionary monetary policies in the OECD region because (1) of the lingering effects of the “Great Recession” (i.e., high unemployment rates in western economies over the near and medium-term) and past fiscal profligacy, and (2) the sovereign debt crisis now gripping Europe requires fiscal retrenchment which, in this environment, runs the risk pushing Europe back into recession.

(2) Global imbalances: A correction in the global imbalances will require, among other things, a dollar devaluation against the Asian currencies generally and the renminbi specifically. There has been no material improvement in the US trade and current account deficits in recent quarters, and US economic growth is again coming on the back of an already over-indebted household sector. (Some in Congress want outright dollar devaluation ... or trade barriers if devaluation cannot be effected!).

(3) Global FX reserves are excessive: Currency reserves around the world are in excess of \$9 trillion, of which 62-65% are denominated in US dollars (China added \$199 billion to its currency reserves in 2010-Q4). These reserves have to be diversified and gold is an excellent asset in so far it is not another central bank’s (i.e., the Federal Reserve’s) liability

(4) Central banks buying gold: There has been a sea-change in central banks’ attitude towards gold over the last 10-15 years (remember when the UK, Switzerland, and other central banks were selling gold?). CBGA signatories (European central banks) appear to have stopped selling gold – they sold next to nothing in 2010 - and emerging-economy central banks (i.e., the Reserve Bank of India, the People’s Bank of China, and the central bank of Russia) have added gold to their reserves in recent quarters – sufficient to offset the 403 tonnes of gold sold by the IMF over the last six quarters. There is also a sense that gold will regain some quasi official role in the international monetary system.

(5) Gold is not in a bubble: While superficially the nominal price of gold has risen dramatically in recent years, gold is not particularly “expensive” when compared with other commodities, nor when compared with financial assets; any comparison of recent gold price trends with past “bubbles” shows that the current price move in gold is quite pedestrian.

(6) Mine supply up only modestly: Mine supply is rising according to GFMS, who gather this information, but the rise is not at a pace that suggests supply indigestion is around the corner. Indeed, there appears to be some difficulty in output responding to the higher gold prices; costs in the mining sector have risen dramatically, barriers of a government and environmental nature have increased, and miners are having difficulty replacing the deposits now being depleted.

(7) Investment demand: Investment demand for gold has been rising sharply in recent years, and we expect it to continue rising for years to come as investors in the developed economies recognize (1) that gold has attractive portfolio characteristics, (2) that gold is a good hedge against potential future inflation, (3) that gold is a good hedge against currency debasement. Meanwhile, in Asia (4) gold markets are undergoing “revolutionary” reforms, as a result (5) Asian buyers are increasingly able to access gold in their domestic markets, and (6) Asian incomes are rising leaps and bounds – making gold acquisitions possible

(8) Commodity price cycle: Historically the inflation-adjusted price of gold (and the inflation-adjusted prices of commodities more generally) exhibit long bear and bull cycles; the shortest price cycle for gold was a 10-year bull cycle for example, from 1970 to 1980, while the shortest price cycle for copper was a 16-year bear cycle. It is extremely difficult to argue, given the emergence of the BRIC with 3 billion+ future consumers, that the current bull cycle in gold and resources – now about to enter its tenth year - will be the shortest cycle on record. Indeed, it is likely to be one of the longest!

(9) Geopolitical environment: The current geopolitical climate is colored with continuing Mid-East tensions, a war in Iraq and Afghanistan, increased terrorist activity by Muslim extremists in Europe and North America, a belligerent Iran anxious to perfect nuclear energy/weapons industry, a Pakistan teetering on the brink of total chaos, an erratic North Korea and an uncertain US foreign policy as of late, to name the more obvious. Geopolitical crises have historically led to sudden, unpredictable, blowups in the gold price, with blowups in a bull-cycle being particularly extreme.